

# FINANCIAL STATEMENT INTEGRITY: WHAT ARE THINGS THAT INFLUENCE IT?

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**Abstract**— This study aims to determine the effect of company size, institutional ownership, profitability and audit quality on the integrity of mining companies' financial statements on the Indonesia Stock Exchange for the 2017-2021 period. The approach used in this study is quantitative. The population is the mining sector companies listed on the Indonesia Stock Exchange for 2017-2021. The sampling technique used was the purposive sampling method, and the data analysis in this study used multiple linear regression analysis. The findings of this study indicate that the variables of firm size, institutional ownership, and audit quality empirically have a positive effect on the integrity of the financial statements of mining sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period, while profitability does not have a significant effect on the integrity of the financial statements of mining companies listed on the Indonesian Stock Exchange listed on the Indonesia Stock Exchange for the period 2017-2021.

**Keywords**— Financial Statement Integrity, Company Size, Institutional Ownership

## 1. INTRODUCTION

A financial statement is a document that provides information related to the company's financial condition that is used to assess the results of a company's financial performance. Financial statements are generally used as a form of corporate responsibility for users of financial statements and must be presented accurately. The information included in the financial statements must be presented based on complete data accuracy to make it easier for users of the report to decide (Kartika & Nurhayati, 2018).

The Enron case manipulated financial statements in the 2001 period, which made KAP Arthur Andersen also dragged into this case because they were responsible for auditing the financial statements. Enron inflated its revenue value by US\$ 181 million, from its original revenue of US\$ 185 million to US\$ 366 million.

Company size is one of several factors that affect a financial statement's integrity level. Company size influences management to compile financial statements based on honesty, and the larger the Company size of an entity, the submission of financial statements will have better standards. Furthermore, institutional ownership can also affect the integrity of a financial statement. Institutional ownership is ownership of other institutions in a company (Wardhani & Samrotun, 2020). Financial ratios such as profitability also affect the integrity of financial statements. Pratiwi states that high profitability shows the Profit earned by the company (2015). Company managers will disclose company profits in financial statements to attract the attention of stakeholders. The next factor that affects the integrity of a financial statement is the audit quality of the published financial statements. Audit quality is seen based on the opinion indicators issued by public accountants, be it violations or errors in the presentation of financial statements found by the auditor when auditing the client's financial statements (Rachmad et al., 2020).

Previous research has been conducted by Rivandi and Pramudia. This study intends to show the effect of Company size, institutional ownership, profitability and audit quality on the integrity of a financial statement. The research became a reference in the author's research, where the researcher added independent variables, namely profitability and audit quality. In addition, the research subjects and years used are also different. That is, this study looks at mining companies. The inconsistent results of previous studies have made researchers interested in conducting further research on the integrity of these financial statements (2022).

The financial statement can be defined as a document that provides an overview of the condition of an entity in the financial sector in a certain period. According to Herispon, the output of the preparation process, which aims to input business transaction data, is called financial reports (2016). A financial report presented by an entity must have a proper, good category, comply with applicable accounting rules, and be easily understood by users of financial statements. The financial report is a record that includes information relating to an entity's finances in an accounting period that can provide an overview regarding the performance of that entity. This financial report is part of the various types of financial reporting processes needed to make a financial report carried out by the accounting department in an entity.

According to Raharjo (2015), agency theory is defined as a theory that explains the relationship between the owner (principal) and manager (agent). Owners and managers have different interests, giving rise to agency conflicts. Conflicts between owners and management are caused by the company's development getting bigger (Kartika & Nurhayati, 2018). The financial statement is a description of the entity's financial performance, which is presented in the form of calculation results and financial records and is used as a basis for decision-making. The information presented in the financial statements is used as a medium of management communication with investors (Rachmad et al., 2020). Integrity in presenting a financial statement is necessary. It must be considered because it is a form of entity accountable for their performance in one period of financial statementing (Yulinda, 2016).

Company size is usually used to classify an entity into large, medium, or small groups (Pratiwi, 2015). Large companies are usually classified due to many assets and income levels. On the other hand, small-scale companies are assumed to generate lower profits because the costs they incur cannot be covered by the sales that have been made by the company (Wardhani & Samrotun, 2020). Institutional ownership is the existence of another company that is part of the company's shareholder (Savero, 2017). A high percentage of institutional ownership can deter certain parties from committing fraud and require managers to submit honest financial statements by agencies that hold a high percentage of company shares (Sinulingga et al., 2020). Profitability is the Profit a company earns in managing its wealth in an accounting period (Rachmad et al., 2020). Profitability reflects the level of efficiency achieved from the company's operations (Sinulingga et al., 2020).

Fitria and Triyanto, state the quality of audits in public accounting firms that examine the annual financial statements of an entity (2020). The better the reputation of the public accounting firm that audits the financial statements of an entity, the better the audit quality.

In this study, Company size was measured using the LN of the company's total assets. To achieve financial statementing that is honest and with integrity, the larger the entity, the greater the stakeholder demands financial statementing that is honest and reflects the actual situation (Tudose et al., 2022)

**H<sub>1</sub>:** Company size has a significant positive effect on the integrity of a financial statement.

The proportion of shares held by institutional investors in the entity will help reduce fraud by managers, thus providing a positive impact in the form of increasing the integrity of the entity's financial statements. Institutional ownership can be a preventive measure to monitor the performance of the entity's managers (Wijaya et al., 2022).

**H<sub>2</sub>:** Institutional ownership has a significant positive effect on the integrity of a financial statement.

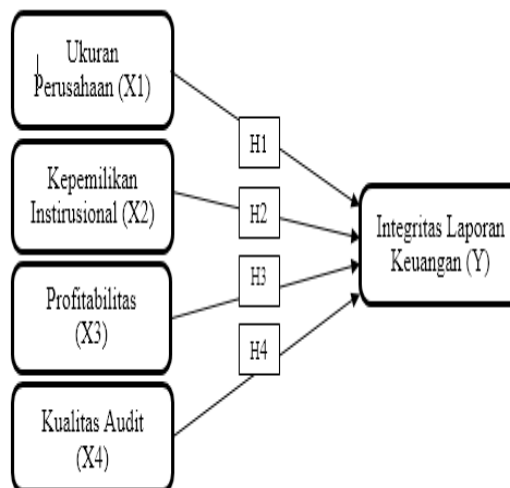
Profitability can be expressed in terms of sales and investment taking. The measure of profitability is proxied by the total assets in an entity (Hamid & Arshanty, 2022).

**H<sub>3</sub>:** Profitability has a significant positive effect on the integrity of a financial statement.

In this study, the indicators of audit quality are expressed through the size of the Public Accounting Firm, and the company will tend to pay attention to the reputation of the public accounting firm in determining the choice to audit the company's financial statements. A public accounting firm with a good reputation and is included in the big four categories is considered to have a good reputation in the audit process (Darya & Puspitasari, 2017).

**H<sub>4</sub>:** Audit quality has a significant positive effect on the integrity of a financial statement.

The framework proposed in this study is as follows:



**Figure 1.**  
Research Framework

## 2. RESEARCH METHOD

The quantitative approach is the type of approach used in this research. The selected population is mining sector companies listed on the Indonesia Stock Exchange from 2017 to 2021.

The samples used in this study were 145 entities based on observations made. To determine the sample itself using the purposive sampling method with predetermined criteria:

1. Mining sector companies listed on the Indonesia Stock Exchange from 2017-2021.
2. Mining sector companies that submit financial and financial statements from 2017 to 2021.
3. Companies based on financial statements have no losses from 2017-2021
4. Companies that routinely report complete financial performance during the study period.

The integrity of financial statements is the dependent variable used in this study and is calculated based on the conservatism index:

$$\text{CONNACC}_{it} = \text{NI}_{it} - \text{CO}_{it}$$

**Source: Qonitin and Yudowati (2018)**

### Information:

$\text{CONNACC}_{it}$	:	The integrity of the financial statement
$\text{NI}_{it}$	:	Net income plus depreciation and amortization
$\text{CO}_{it}$	:	Cash flow from operating activities

The independent variables in this study are:

### 1. Company size

It is calculated using the natural logarithm (LN) of the total assets owned by the entity.

$$\text{Company size} = \text{LN}(\text{Total Assets})$$

**Source: Fajaryani (2015)**

### 2. Institutional Ownership

This variable is measured using the following formula:

$$KI = \frac{\text{Institutional Shares}}{\text{Outstanding Shares}}$$

Source: Fajaryani (2015)

### 3. Profitability

It is calculated using the following formula:

$$ROA = \frac{\text{Profit after tax}}{\text{total Assets}}$$

Source: Rahmadani and Rahayu (2017)

### 4. Audit Quality

According to Hardani, Dummy variables are used to measure audit quality with the following categories (2020).

- If the Public Accounting Firm is classified as a big four, it is given a value of 1.
- If the Public Accounting Firm is classified as non-big four, then it is given a value of 0.

The data used in this study is secondary data with data collection techniques using literature and document studies (Tudose et al., 2022). The analysis of the data tested in this study were descriptive statistical tests, classical assumption tests and hypothesis tests.

## 3. RESULT AND DISCUSSION

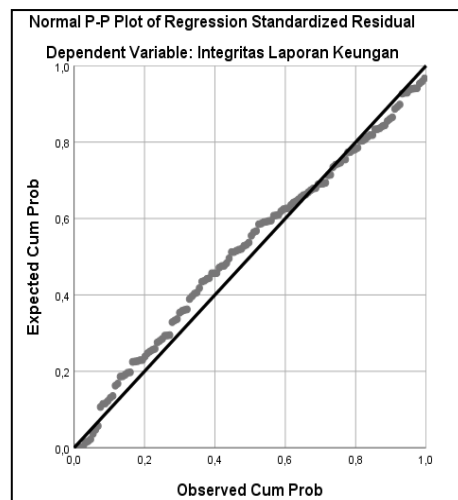
Descriptive statistics are the initial tests carried out in this study to describe the results of statistical calculations issued by the SPSS Version 25. The following are the results of tests that have been carried out:

**Table 1. Descriptive Statistical Analysis**

Descriptive Statistics					
	N	Min	Max	Mean	Std. Dev
Company Size	145	25.94	32.26	29.185	1.35419
Institutional Ownership	145	0	1	0.6401	0.2602
Profitability	145	0	0.52	0.0866	0.0962
Audit Quality	145	0	1	0.5172	0.50143
Financial Statement Integrity	145	19.22	29.47	25.871	1.75913

Source: Processed Data, 2022

Based on the test above, we can see that the mean value of the Company size, institutional ownership, and profitability variables has a more excellent value than the standard deviation. This proves that the data is spread evenly. The standard deviation value for the audit quality variable is higher than the value (mean), which indicates that the data is not evenly distributed. Next, the test carried out is a normality test, as described below:



**Figure 2. P-P normality test**  
Source: Processed Data, 2022

Based on Figure 2, the data in this study is generally distributed because the points spread around the diagonal line, and the pattern of these points follows the diagonal line. The results of this test are reinforced by the Kolmogorov-Smirnov (K-S) statistical test.

**Table 2. K-S normality test**

One-Sample Kolmogorov-Smirnov Test			
			Unst. Res
<b>N</b>			145
<b>Normal Parameters<sup>a,b</sup></b>	Mean		0
	Std. Dev		1.08479729
<b>Most Extreme Diff.</b>	Absolute		0.075
	Positive		0.04
	Negative		-0.075
<b>Test Statistic</b>			0.075
<b>Asymp. Sig. (2-Tailed)</b>			.051 <sup>c</sup>
<b>Monte Carlo Sig. (2-Tailed)</b>	Sig.		0.383 <sup>d</sup>
	Conf. Int.	Low. Bound	0.371
		Upp. Bound	0.396

Source: Processed Data, 2022

Table 2 shows that the study's data is normally distributed because it can be seen that the value of the Monte Carlo sig. (2-tailed) has a value  $> 0.05$ , with the result 0.383 ( $0.383 > 0.05$ ).

**Table 3. Autocorrelation Test**

Model Summary <sup>b</sup>					
Model	R	R Square	Adj. R Square	Std. Error of the Estimate	Durbin-Watson
1	.669 <sup>a</sup>	0.448	0.432	1.10052	2.032

Source: Processed Data, 2022

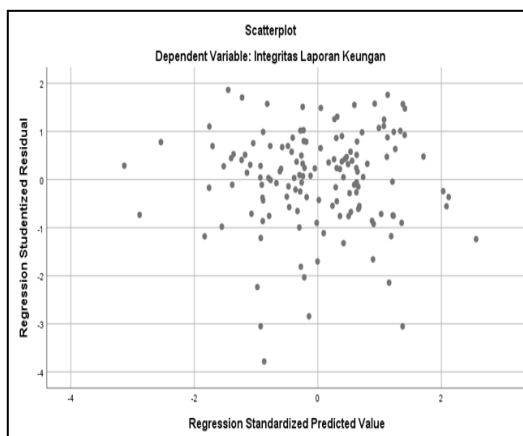
Based on the value of  $K = 4$  and  $N = 58$ , the value of  $du$  for this regression model is shown in the Durbin-Watson table with a value of  $\alpha = 5\%$ , which is 1.7840, and the value  $(4-du)$  is 2.2160. The value in this regression model lies between the values of  $du$  to  $(4-du)$ , which is 2.032. Based on these data, it is known that this study's data has no autocorrelation symptoms between one residual variable and another ( $1.7840 < 2.032 < 2.2160$ ).

**Table 4. Multicollinearity Test**

Coefficients <sup>a</sup>			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Company Size	0.697	1.434
	Institutional Ownership	0.894	1.119
	Profitability	0.847	1.18
	Audit Quality	0.617	1.621

Source: Processed Data, 2022

The table above shows a small VIF value of 10 and a significant tolerance value of 0.10. So it can be seen that this study has no occurrence of multicollinearity.

**Figure 3. Uji Heteroskedastisitas**

Source: Processed Data, 2022

The picture above shows no symptom of heteroscedasticity in this study because the points spread and formed an irregular pattern. To strengthen the results of this study, the glejser test was carried out.

**Table 5. Glejser Test**

Coefficients <sup>a</sup>					
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
	(Constant)	-1.685	1.401		0.231
	Company Size	0.115	0.067	0.171	0.091
	Institutional Ownership	0.43	0.308	0.124	0.164
	Profitability	0.725	0.726	0.091	0.32

	<b>Audit Quality</b>	-0.303	0.193	-0.168	-1.57	0.119
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Source: Processed Data, 2022

The table above shows that there is no symptom of heteroscedasticity based on the table above. Therefore all the variables used "have a significance value above 0.05.

Next, hypothesis testing is carried out, and the following are the results:

**Table 6. Multiple Linear Regression Test**

<b>Coefficients<sup>a</sup></b>				
<b>Model</b>		<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>
<b>1</b>	<b>(Constant)</b>	1.746	2.186	
	<b>Company Size</b>	0.805	0.125	0.581
	<b>Institutional Ownership</b>	0.385	0.481	0.054
	<b>Profitability</b>	-0.824	1.133	-0.05
	<b>Audit Quality</b>	0.609	0.302	0.163

Source: Processed Data, 2022

From the table above, it can be seen the equations in this study:

$$ILK = 1,746 + 0,805 UK + 0,385 INST - 0.824 PFTB + 0,609 KA$$

**Table 7. Coefficient Determination Test**

<b>Model Summary<sup>b</sup></b>					
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adj. R Square</b>	<b>Std. Error of the estimate</b>	<b>Durbin-Watson</b>
<b>1</b>	.669 <sup>a</sup>	0.448	0.432	1.10052	2.032

Source: Processed Data, 2022

Based on the table above, the adjusted R square value is 0.432. It can be seen that the ability of the independent variables is sufficient to explain the variation of the dependent variable.

**Table 8. Simultaneous Test (F Test)**

<b>Anova<sup>a</sup></b>						
<b>Model</b>		<b>Sum Of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
<b>1</b>	<b>Regression</b>	134.679	4	33.67	27.8	.000 <sup>b</sup>
	<b>Residual</b>	165.927	137	1.211		
	<b>Total</b>	300.606	141			

Source: Processed Data, 2022

The table above shows that the significant value in this regression model < 0.05 is 0.000 (0.00 < 0.05), and the value of Fcount > Ftable is 27.800 < 2.44. It can be concluded that simultaneously Company size, institutional ownership, profitability and audit quality variables

significantly influence the integrity of financial statements.

**Table 9 Partial Test (T-Test)**

Coefficients <sup>a</sup>			
Model		T	Sig
1	(Constant)	.799	0.426
	Company Size	7.645	0
	Institutional Ownership	2.801	0.025
	Profitability	-0.727	0.468
	Audit Quality	2.018	0.046

Source: Processed Data, 2022

The table above can provide an overview of the hypotheses that have been put forward, along with the explanations:

1. The effect of Company size on the integrity of a financial statement

The test results show a significance value of Company size  $< 0.05$ , namely  $(0.00 < 0.05)$  and  $T_{count} > T_{table}$ , namely  $(7.645 > 1.9774)$ . It can be concluded that Company size positively influences the integrity of a financial statement. Therefore  $H_1$  is accepted. This result is further strengthened by agency theory which explains that agency conflicts arise due to the development of an increasingly large company, resulting in differences in interests between owners and management.

2. The effect of institutional ownership on the integrity of a financial statement

The test results show a significant value of institutional ownership  $< 0.05$ , namely  $(0.025 < 0.05)$  and  $F_{count} > F_{table}$   $(2.801 > 1.9774)$ . It can be concluded that institutional ownership has a significant positive effect on the integrity of financial statements. Therefore  $H_2$  is accepted. High share ownership by institutional investors will help encourage increased supervision of managers' performance to present financial statements with integrity.

3. The effect of profitability on the integrity of a financial statement

The test results show a significant value of profitability  $> 0.05$ , namely  $(0.468 > 0.05)$  and  $T_{count} < T_{table}$ , namely  $(-0.727 < 1.9774)$ . For this reason, it can be seen that profitability does not affect the integrity of a financial statement, meaning that  $H_3$  is rejected. Companies with high profits do not always present financial statements honestly (Saksakotama & Cahyonowati, 2014).

4. The effect of audit quality on the integrity of a financial statement

The results of the hypothesis test that has been carried out show that the significance value of audit quality  $< 0.05$  is  $(0.046 < 0.05)$ , and  $T_{count} > T_{table}$  is  $2.018 > 1.9774$ . For this reason, it can be seen that audit quality significantly influences the integrity of a financial statement, meaning that  $H_4$  is accepted. This result is strengthened through agency theory which explains the differences in the information held by owners and management so that companies tend to pay attention to the public accounting firm used to audit the company's financial statements. Public accounting firm classified as big four public accounting firm is assumed to be able to present financial statements with integrity so as not to mislead users of financial statements.

#### 4. CONCLUSION

Based on the results of the research that has been carried out, the following conclusions are drawn from this study, namely that there is a significant effect between company size, institutional ownership, and audit quality on the integrity of financial statements in mining sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period.

The following are some things that are proposed as suggestions in this research:

- 1) For entities, it is better to study more factors (both internal and external) that can affect the integrity of a financial statement.



- 2) For further researchers, it is hoped that they can expand the scope of research so that they can improve the quality of research related to the field in this research.

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